CHAPTER VI

SUMMARY,

CONCLUSIONS

AND SUGGESTIONS
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(The present study is concerned with The Role of NABARD in Agriculture and Rural Development in India.) The foregoing chapters contained a detailed analysis of the multifaceted role of NABARD in the upliftment of rural people with a special focus on agriculture in the country. This chapter presents an abridged version of what has been inferred from the study and also provide a few specific suggestions in the targeted areas where the gaps have been identified.

In a country like India where more than 70 per cent of the population live in rural areas and whose main occupation is agriculture, economic development would really mean reconstruction and resurface of its agricultural and rural development. And as has been noticed in the study one of the major factors of agriculture and rural development in our country is the provision of banking facilities. The purpose of banking facilities is not only to replace traditional money lenders with institutional agencies but also to enable and motivate agriculture and farmers to catch up the level of technology resulting into increased productivity of land, labour and capital. The present structure of agriculture and rural credit in India consists of two groups of sources — non-institutional and institutional. Among non-institutions we find money lenders, indigenous bankers, landlords, traders and commission agents. The sources of institutional finance include co-operatives, commercial banks and regional rural banks. Besides, there are some
institutions which are indirectly engaged in rural and agriculture credit namely, the RBI, the AFC and the NABARD. The establishment of various institutions for agricultural and rural credit resulted into a shift in borrowings by the cultivators from non-institutional sources to institutional sources.

It is with this background that we attempted the present study. The study is restricted to the assessment of the role of NABARD in agricultural and rural development. The study comprised a critical evaluation of different aspects of NABARD including its organisation and management, sources of finance, financial analysis, the procedural aspects and terms and conditions of refinancing, efforts made by NABARD in fulfilling the credit gaps and removing the deficiencies in the agricultural and rural financing and the developmental and coordinating role of NABARD. The data were collected both from primary as well as secondary sources covering a period of 19 years ranging from the year 1982 through the year 2000. The following paragraphs contain the summary of the thesis, broad conclusions and suggestions.

SUMMARY AND CONCLUSIONS

The need for an apex bank for agriculture was felt after the establishment of IDBI in 1964, but the All India Rural Credit Review Committee in 1969 rejected the suggestion. In March 1979, the Government of India set-up a committee to review arrangements for institutional credit for agriculture and rural development. The
committee examined in detail arguments in favour and against the establishment of a national bank for agriculture. It felt that the new institution would help in maintaining the proper financial discipline and that device of a statutory body for policy making for agriculture credit is necessary. The Parliament enacted the National Bank for Agriculture and Rural Development Act 1981 and NABARD was set-up with effect from 12 July, 1980.

NABARD as an apex institution in the field of agricultural finance has been set-up with the objectives of facilitating credit flow for agriculture and rural development, for promoting and supporting policies, practices and innovation conducive to rural development, for strengthening rural credit delivery system, for concentrating on poverty alleviation and employment generation, for supervising rural financing institution and for coordinating different agencies engaged in development work at the field level.

The various activities of NABARD may be broadly classified as credit function, development functions, supervisory function and other functions. The management of NABARD is vested in a Board consisting of 15 members - a chairman, two directors expert in economics and rural development, three directors with banking experience, three directors from RBI, three directors from Central Government, two directors from the state governments and a managing director. Our analysis revealed that five to six vacancies on the Board
of Directors remain vacant. The absence of key-persons in some department hampers their efficient functioning and under representation on various important committees.

For efficient performance of its functions, NABARD is empowered to appoint various committees like Executive Committee, Advisory Council etc. The entire work of NABARD has been divided into 22 departments. These departments are further divided into divisional cells according to the requirements to achieve its objectives and for efficient performance. NABARD has opened 25 regional offices, one sub-office and 256 DMM offices at various state capitals and important cities. The functioning of different offices of NABARD is always through a judicious planning, careful regulation and vigilant control. The offices at regional and district level have resulted into more effective evaluation and monitoring of various schemes.

As regard to share capital of NABARD, it increased from 100 crores in 1983 to 500 crores in 2000. However, the trend of its percentage in total working fund was decreasing during 1983 to 1993 and 1996 to 2000 whereas there was increasing trend during 1993 to 1996. The range of this percentage was 0.63 per cent to 2.55 per cent. An increasing trend can be noticed for the amount of reserves and surplus during 1983 to 2000 and also for their percentage in total working fund during 1983 to 2000 except in 1999.
Evidently, a fluctuating behaviour was found for reserves and surplus as a sources of fund and also for their percentages in total sources of funds.

Further there are two types of long-term funds - NRC (LTD) fund and NRC (Stabilisation) fund. Both types of funds have increasing trend. However, the percentage of NRC (LTD) fund in total long-term funds had increasing trend till 1997 but it had decreasing trend thereafter whereas the percentage of NRC (stabilisation) fund has the reverse behaviour as that of NRC (LTD) fund.

Percentage of borrowings in total sources of funds showed a fluctuating behaviour whereas in total working fund it showed more or less a decreasing trend. Money borrowed by NABARD was in the form of issue of bonds and debentures, direct loans from Government of India and from RBI and T.T. discounted with R.B.I.

Following conclusions are drawn on various types of deposits viz. Central Government, State Governments and others:-

- The deposits (in absolute amount and in percentage terms) of state governments were lower than that of central government except for year 1984 but the trend pattern of deposits of both the governments was more or less same.

- Deposits (in absolute amount and in percentage terms) of others were lower than those of government upto 1985 but higher than the governments thereafter.
Other liabilities in terms of percentage in sources of funds have the fluctuating behaviour whereas in total working fund it showed an increasing trend from 1988 to 1994 but thereafter it remained more or less constant except for 1996.

For various types of current liabilities viz. liabilities to shareholders of ARDC, interest accrued but not due, sundry creditors, bonds matured but not claimed, unclaimed interests on bond holders held and others; the following features become evident:-

First, liabilities to shareholders of ARDC were started in 1992 and almost ended after 1998. During this period its trend was fluctuating. Second, the interest accrued but not due accounted for most significant amount in total current liabilities. Third, 'Sundry Creditors' and of 'Sundry Creditors' were less than 18 per cent of the total and have fluctuating behaviour throughout. Fourth, unclaimed interest on bond holders held by RBI was almost insignificant (not more than 6 per cent of the total) throughout the period of study. Fifth, percentage of other liabilities in the total was fluctuating and was significant for some years.

NABARD invested some amount in the fixed assets as well but this was not substantial. The ratio of fund assets to the total capital fund ranged from 0.001:1 to 0.016:1 throughout the period of study. Short-term financial position was sound for all the years of study
except for the years 1995, 1996, 1999 and 2000. Except for these four years, the ratio of current assets to current liabilities ranged from 2:1 to 3.39:1.

It is significant to note that the rate of Returns On Capital Employed (ROCE) and rate of Returns On Total Assets (ROTA) in terms of percentages have the fluctuating behaviour. They showed almost the same trend, Return of net work On Shareholder Equity (ROSE) also has the fluctuating behaviour. It may also be concluded that on the basis of ROCE, ROTA and ROSE, the overall profitability is highly unsatisfactory.

Further, net profit after interest and taxes showed an increasing trend throughout the period of study whereas the fixed interest charges were having fluctuating behaviour and remained less throughout than the net profit after interest and taxes. Interest coverage ratio ranged between 1.13:1 and 2.25:1.

It was also brought out that NABARD provides the refinance support for different activities through eligible institution. These activities include other supporting national policies for agriculture production and rural employment, efficient use of national resources, reduction of regional imbalances, ensuring credit support to weaker sections of the society and increasing the quality of lending. The terms and conditions of the refinance facilities depend on the type and duration of the facilities and the institution to which the refinance is provided. The NABARD has prescribed realistic average unit cost for
each type of investment based on technical parameters. For example, 5 per cent to 20 per cent of the investment cost is required to be contributed by the beneficiaries, the amount of refinance provided by NABARD ranges between 50 per cent to 95 per cent. The condition of security by the financing bank can be waived for any eligible institution on merits in individual cases. The rate of interest charged by NABARD on its refinance is determined on the basis of the amount of refinance and the nature of the institutions which ranges between 0 per cent to 10.5 per cent. The maximum period of loan may be upto 25 years. Refinance is provided to SCARDBs, SCBs, RRBs and CBs against their term loan for agricultural and allied sector, non-farm sector activities and rural industries. Major purposes covered are farm mechanisation, minor irrigation, non-far sector, plantation, horticulture, animal husbandry, storage, market yards, inland/marine fisheries, etc. Poverty elevation programme like IRDP and SC/ST action plan are also refinanced.

The amount of disbursements witnessed an increasing trend throughout the period of study. The number of schemes has an increasing trend upto 1990-91 but the number of schemes went on decreasing thereafter. In 1999-2000, there were only 353 schemes whereas the highest number of schemes were 10650 in 1989-90.

State Cooperative Banks (SCBs) sanctioned Short-Term (ST) loans to various short-term operations related to agriculture and rural development. It is observed from the data that the Seasonal Agricultural
Operations (SAO) accounted for lions' share with regard to credit limits, amount of drawls and amount outstanding. Production and marketing activities of co-operative weavers' societies ranked second. Other ST operations of the SCBs accounted for insignificant share.

It is noted that the long-term credit limits were sanctioned to SCBs only. These credit limits registered a decreasing trend in the first four years. Thereafter, the amount varied and ranged between Rs.14 crores to 150 crores. It can further be noticed that the amount sanctioned for short-term credit limits is significantly higher than that for medium-term which in turn is higher than that for long-term credit limits.

For the region-wise and state-wise sanctions of number of schemes, amount, commitments and disbursements, following inclusions became inescapable:-

- Region-wise, the maximum number of schemes have been sanctioned in favour of southern region while the western region, north region, central regions, eastern region and north-eastern region ranked second, third, fourth, five and six respectively.

- The larger amount of refinance sanctioned, commitments and disbursements made were availed by the southern, central, northern and western regions.
• State-wise, Maharashtra was on the top position in sharing the number of schemes. Andhra Pradesh, Karnataka, Madhya Pradesh, Uttar Pradesh and Tamil Nadu were the other states which accounted for admirable share in the number of schemes.

• So far as the amount sanctioned, commitments and disbursements are concerned for state-wise; Uttar Pradesh ranked the first. Other important beneficiaries were Maharashtra, Andhra Pradesh and Karnataka.

As the mode of disbursements, there were four agencies to which the sanctions and disbursements were made under schematic lending by NABARD upto March 1999. These agencies are State Land Development Banks (SLDBs), Commercial Banks (CBs), Regional Rural Banks (RRBs) and State Co-Operative Banks (SCBs). One more agency named ADFCs came into existence during 1999-2000. Out of these agencies, the CBs and SLDBs together accounted for around 80 per cent in number of schemes, amount of sanctions, commitments and disbursements. The basic reason is that both CBs and SLDBs are engaged in extending long term loans whereas SLBs and RRBs mainly produced short-term loans of smaller amounts. The newly introduced agency ADFCs in 1999-2000 has insignificant number of schemes, amounts sanctioned, commitments and disbursements as compared to other agencies.
With regard to number of schemes, amounts, commitments and disbursements for purposewise sanctions; the minor irrigation is the largest items. Second in rank is the farm mechanisation. Land development, plantation/horticulture, diary development, fisheries, poultry/sheep/goat/piggery, storage/market yards, forestry and others were also come under the purposes but they are not much significant items.

So far as the purposewise disbursements under IRDP are concerned, the amount of disbursements for Industries, Services and Business (ISB) component was small in the beginning i.e. in 1982-83 but in the succeeding years it came at the first rank. Second in rank was dairy development. Next ranks go to minor irrigation, sheep/goat/piggery, livestock and others.

In case of authorisation sanctioned for block capital and working capital requirements by NABARD to SCBs and CCBs, we conclude the following:-

- For Block Capital requirement, the amount ranged from Rs.72 crores to Rs.616.82 crores whereas for working capital, it ranged from Rs.1347 crores to Rs.4678.53 crores; i.e. the amount for working capital is much higher than that for Block capital in each year.
- In case of Block Capital requirements the number of societies involved were comparatively smaller than in the case of working capital requirements.
• The CCBs showed greater participation than SCBs in implementation of Credit Authorisation Scheme (CAS).

It may be highlighted that the NABARD has to deal with a number of banking and non-banking institutions. Being an apex body, it has to coordinate with all of them. Under its cooperating role, NABARD has taken a number of steps which are aimed at fostering healthy growth of rural credit and the institutions engaged in it. The national bank has taken various initiatives for strengthening the performance of co-operative bank, RRBs and Commercial Banks. The NABARD took the initiatives by requiring these banks to prepare their own plans for the future viability and implementation of the plans.

In order to ensure better functioning of banks for their future plans, the Development Action Plan (DAP) was launched in 1993-94. The main objective of DAP is reduction in cost, maximisation of resources and optimum utilisation of available resources. The DAP includes the specific key actions, finding and collection of data activities, status of plan, comparison of data information, setting of objectives with quantifications of various data, and implementing corrective measures through change in policy and operational matters to achieve the goal.

The National Bank has taken effective implementation of DAP. A self propelled mechanism is constituted at state and district levels, SCBs, DCCBs and SCARDBs, have been advised to constitute Institutional Development Cell (IDC). Suitable off-site monitoring
mechanism has been introduced at banks level in the head offices and regional offices of NABARD. NABARD is extending financial support to SCBs and SCARDBs for appointment of finance analyst to head their IDCs. On the ground of DAP and MOU requirements, SCBs and SCARDBs were suggested to get specific studies conducted by consultants in areas like HRD, MIS, OXM and viability of PACs. The National Bank has started the process of State Specific Reforms Packages for cooperative banks during 1997-98. The Organiser Development Inter (ODI) schemes programmes were taken up in RRBs and few pilot DCCBs to cover more SCBs and SCARDBs in the year 1999-2000.

The study revealed that the NABARD has taken number of initiatives to improve the financial strength of Co-operative Banks. At present the National Bank focuses attention in improving the rural credit delivery system. The Kisan Credit Card Schemes and Self Help Groups (SHG) were started forcefully in 1999-2000.

The NABARD has also taken steps to improve the viability and strengthen the financial position of RRBs. For example, the Government of India constituted in October 1999 a working group to estimate the human resources requirement of RRBs. The National Bank has delegated authorities to take decision on various operations and administration matters on the day to day working of the RRBs under the monitoring and review mechanism envisaged for DAP and MOU. The National Bank is also providing training necessary to the RRB's
employees to upgrade their skills. The NABARD is also responsible for the branch extension of RRB, number of RRBs rose to 196 at the end of March 1999. The branches of RRBs reached at 14499.

Under the programme of strengthening the commercial banks, the Committee on Agricultural Loans through Commercial Banks was set-up by NABARD. The Committee formulated proposals regarding the recovery performance and past lending of implementing branches of Commercial Banks and linking them with refinance from NABARD. The Committee discussed staffing norms, analysis of overdues, maintenance of demand, collections and balance register by branches of Commercial Banks. In June 1999, the Basle Committee on banking supervision had also realised a need for consultative paper on new capital adequacy framework to further strengthen the soundness of the financial system. In the GOI Union Budget 2000-2001, it was declared that government would reduce its holding in PSBs to 33 per cent while ensuring that the Commercial Bank would initiate in their public sector character. The Commercial Banks have already reached the ground level credit for agriculture and allied activities by increasing the credit from Rs.19755 crore in 1998-99 to Rs.24693 crore in 1999-2000.

On the recovery front, the NABARD has accepted the task of improving recovery performance of financial institutions very seriously. Various discussions with union finance ministry, Governor RBI, Finance Secretary of Govt. and NABARD officials took place for consideration of the problems of overdues of all financial institutions.
The Reserve Bank also established micro-credit special cell in April, 1999 for monitoring the credit policy. Meanwhile, task force on the supportive policy and regulatory framework for microfinance was set-up by NABARD. A raised reporting system for monitoring microcredit disbursal on a half yearly basis has been put in place. The coordination effort on the part of NABARD, Ministry of Agriculture, GOI, RBI, State Governments, SCBs, SCARDBs and Commercial Banks. The recovery performance of financial institutions has improved, but it can not be considered satisfactory at the present level.

Besides extending various refinance facilities to various eligible institutions, NABARD is also actively engaged in a number of development activities. For financing ongoing rural infrastructure projects, the Rural Infrastructure Development Fund (RIDF) was setup in the year in 1995-96. Till the financial year 2000, there have been six tranches of the funds with enhanced contribution. The main objective of setting up of RIDF is to finance the rural infrastructure projects and to be implemented at the ground level through institution like Panchayati Raj, Self Help Group and Non-Government Organisations. Till today, the National Bank has setup 6 tranches of RIDF from I to VI with corpus of Rs.2,000 crores to Rs.3,500 crores. The total number of project financial till 31st March 2000 were 151237 with sanctioned amount of Rs.13933. The various projects covered under RIDF include irrigation, rural bridges, rural road, trading, watershed management, flood protection, rural market yard, CADA drainage, cold storage,
fisheries, forest development, internal water ways and primary school, rubber plantation, public health farms and rural drinking water. The major shares of RIDF projects went to irrigation which constituted 42.7 per cent of the total amount sanctioned and 78.2 per cent of the total projects. This was followed by rural roads which constituted 38.2 per cent of the total amount and 16.2 per cent of the total projects. Rural bridges received 13.7 per cent of the total amount and 2.2 per cent of the total project. The remaining project formed only 5.3 per cent of the total amount and 2.9 per cent of the total project sanctioned.

The study reveals that the progress under RIDF was not as per the objectives set by the National Bank. The delay is obtaining necessary clearances from appropriate authorities such as CWC, Ministry of Forest and Environment and lack of coordination among implementing departments are the major reasons for its slow growth.

As the supervisory functions, the NABARD has been supervising the functioning of the State Cooperative Banks, District Central Cooperative Banks and Regional Rural Banks. The National Bank has tried to sharpen the focus of inspection by adopting CAMELSC approach. An expert committee headed by Sh. U.K. Sharma was constituted by National Bank and its recommendation have been accepted by NABARD. The supervisory function of NABARD includes on site inspection on a periodical basis, recommendation with regard to issue of bank/branch licences, keeping the bank in appropriate schedules, follow up action on inspection reports, review of fraud in
cooperative bank/RRB, producing guidelines for strengthening the internal central system implementing the decision of the board of supervision monitoring the action plan for the banks, providing policy guidelines to the banks on supervisory relating matter, bringing out awareness, literature, manual, guidelines for the bank and audit classification of banks.

Besides, NABARD is also empowered to undertake the inspection of SCBs, CCBs and RRBs to ensure that the interest of the depositors are protected and banking practices of these institutions remain on healthy and appropriate line. The NABARD also makes inspection of SLD Bank cooperating apex marking federation etc. NABARD has inspected a total number of 4862 institutions comprising of 186 SCBs, 2683 CCBs, 157 SLDBs, 1327 RRBs and 121 other institutions. To improve the inspection procedure, various measures like simplification of reporting system and training of inspecting officers were adopted by NABARD.

A very attractive program known as Vikas Volunteer Vahini (VVV) programme was launched to spread the message of development through institutional credit. Initially VVV programme was launched on a pilot basis in several districts of three states in 1983. The VVV consist essentially of small farmers, rural artisans and other persons of small means assisted by specialists, technocrats and representatives of the NABARD. VVV is a link between the farmer in the village on the one hand and banks and government agencies on the
other. The VVV programme is operationalised through NABARD clubs in each selected district. The club comprised VVV farmer clubs, women clubs, artisan clubs, small farmers clubs and weaker sections clubs. At present there are 4355 farmer clubs spreads over 385 districts covering 22 states and union territories. Besides, there are 147 satellite clubs covering of states. The DDM/DDOs helps the banks in running the day to day activities VVV clubs. There is target to increase the VVV clubs to 10,000 by 31/3/2005. Dormant clubs would be received and cross checking studies shall be undertaken by VVV clubs. Voluntaries are thereby increasing on site exposure.

Lately, NABARD has identified financing of rural non-form sector (RNFS) as one of the thrust area because RNFS bears great potential for creating employment opportunities for the rural workforce. The objective of promotional programme for RNFS is to generate and enhance opportunities for livelihood both in terms of income and employment in rural areas in a sustainable, demonstrative and cost effective manner. These programmes include promotional schemes for strengthening credit innovation, promotion schemes for developing enterprises, promotion schemes for supporting promotional organisational and area programmes.

NABARD also gives training to offices of primary lending institutions in its own training institutes and other institutes funded by it. NABARD establishes techniques monitoring and cultivating cells in RRBs, SLDBs and SCBS to enable these banks to carry out project
appraisal monitory and evaluation of NFS activities. NABARD establishes training corps production sector for importing skills and technology to the small artisans and entrepreneurs for self employment with a comprehensive support programmes. NABARD has long-term plans to switch over to an incentive-based rural entrepreneurship development programme in all states. NABARD seeks promotion of non-farmers enterprises for crediting sustainable employment opportunities in rural areas in cost effective manner. NABARD is encouraging manufacturing and processing unit industries, export houses, marketing organisation of NGOs to ancillaries and sub-contract their requirements of production, components, sub-assembling order among small and tiny units located in rural areas by setting of mother units. It also aims at setting up of common service centre through voluntary agencies for improving competitiveness and bargaining of the cluster units. It further seeks to provide assistance to rural women in non-farm development through reputed voluntary agency and NGOs. NABARD has launched District Rural Industry Project (DRIP) to generate sustainable employment opportunities. The NABARD produces 100 per cent refinance to Gramin Banks for these projects. Grant is also available to NGOs and VAs for promotion schemes under non-farmer sector.
SUGGESTIONS

On the basis of the detailed analysis on the problems and issues, we are now in a position to place a few workable suggestions in the key areas of the working of NABARD.

1. We have seen that the management of NABARD is vested in a board consisting of 15 members which is constituted under Sec.6(1) & 6(2). It has been pointed out while summarising the results that a large number of posts on the board remain vacant. This hampers decision-making and implementation of policies. We have also noticed that a proper representation from various technical fields is lacking in the constitution of the board. The selection of nominations/directors is also not appropriate. In this regard it is suggested that an appropriate representation should be given to every major concerned organisation. It is proposed that necessary modification be made in NABARD act so that the constitution of the Board of Directors be made suitably.

2. Since NABARD is engaged in refinancing the multifaceted activities, availability of adequate funds is necessary. For many years, NABARD continued with a meagre capital of Rs.100 crores. In the year 1996 the capital was raised to Rs.500 crores and remained so for another 5 years. It is only recently that NABARD has realised that a strong capital base is essential for the efficient performance of its activities. Hence, the bank made a significant change in its capital base. Keeping into consideration the fast expanding field of its operations and the accelerating demand for banks in the areas of agriculture and
rural development due to inflation and technological innovations
NABARD is still short of capital. We feel that NABARD should have a
capital base of atleast Rs.10,000 crores in the present scenario. This
capital base should be directly linked with the rate of inflation in the
economy.

3. The analysis of the capital strategies of NABARD has revealed
that the long term fund dominated in the total capital. In long terms,
funds contributions of the RBI and Central Government are equal. It is
suggested that the contribution of RBI should not be less than 51 per
cent of the total sources. Another point which needs consideration is
the insignificant contribution made by the reserves and surplus to the
total funds. Since the reserves and surpluses are internally generated
funds and play an important role in the total sources, it is necessary that
these amounts are significant in the total sources. It is, therefore,
suggested that the contribution of reserve and surpluses in total funds
should not fall below the level of 25 per cent.

4. In view of low Rate of Return (ROR) on capital employed and
total assets, NABARD should take necessary steps so that the overall
profitability may be increased. Rate of return of less than five per cent
cannot be rated as satisfactory in any way. Although, it is argued that
profitability and social purpose cannot go together but inspite of its role
in financing priority sectors and contributing to the promotion of
welfare of common man, NABARD must earn a reasonable amount of
profit. It is therefore necessary for the NABARD to maintain the
profitability at a reasonable level by judicious allocation of credit among various sectors and by striking a balance between profitability and social purpose. Optimum utilisation of resources is the only means to maintain operational efficiency and to improve profitability and productivity.

5. A comparative analysis of the number of schemes and the amount disbursed indicated that on one hand the number of schemes has been continuously reducing, while on the other the amount disbursed has been continuously increasing. In the early years, the NABARD emphasised upon introduction of new schemes without assessing its financial back up. Recently, the NABARD has revised its policy and is training to make a trade off between the schemes and the amount available for disbursements. In this regard, it is suggested that whenever a new scheme is introduced, the NABARD must ensure sufficient availability of funds for the operationalisation of the schemes. Before that the techniques and feasibility study regarding the workability of the schemes must be undertaken. Trend of increase in disbursement of refinance by NABARD should be maintained.

6. In the total ST credit limits and outstanding, the share of RRBs should be increased which will reduce the various problems involved in the disbursement of refinance. This increase in share of RRBs will also reduce the conversion of ST loans into MT loans which would be beneficial for refinance operation activities.
7. With a view to improving the economic condition of rural masses in less developed/underbanked states, the NABARD should provide more refinance on easy terms and conditions. NABARD should take special measures particularly, seeking to bring about better functional co-ordination between state governments, banks and other concerned agencies and prepare workable projects and schemes and credit should be made available on easy terms and conditions. It is also suggested, in particular, that as Uttar Pradesh ranked the first so far as the amount sanctioned, commitments and disbursements are concerned: therefore, sanctioning of the number of schemes should be increased for this state and hence to the North region.

8. Minor irrigation is, of course, the single largest item in regard to the number of schemes sanctioned. But due to non-availability of sufficient land, the percentage of disbursements should be increased for diversified purposes like fisheries, dairy development, poultry/sheep/goat/piggery, storage/market yards. Since these activities are linked directly to the livelihood of the weaker sections of the society in rural areas, due emphasis should be made in this regard.

9. In view of low percentage of disbursements for diversified purposes, NABARD should adopt the policy of providing priority in disbursing refinance for diversified purposes because the activities under diversified purposes are linked directly to the livelihood of the
weaker sections of the society in rural areas. More flow of refinance for this sector will be helpful in improving the economic condition of the weaker sections.

10. During the year 1995-96, a promising scheme named as RIDF was launched by the Government of India for developing rural infrastructure. Under this scheme, financial assistance is given to state governments which need to develop and maintain rural infrastructure use but are inexperienced and have severe resources crunch. Despite the fact that the scheme had very pious objectives, its implementation has not been satisfactory. To improve the efficiency of RIDF, it is suggested further that the central and the state governments should not create delays in grantings necessary clearance. For this purpose they should issue instructions to the concerned departments for taking liberal view for RIDF schemes. RIDF assistance should be sanctioned only after ensuring the land acquisition by the concerned state governments. The state governments must also give an undertaking that they would extend all necessary help in the implementation of the projects and instruct the implementation department not to delay the project under RIDF. In case of cost escalation the state governments should bear the increased cost and the project should not be delayed on this count.

11. Poor resource base, high transaction cost, inefficient loan appraisal procedures and poor loan supervision, inadequate internal corrective mechanism, excessive bureaucratization etc. have
contributed to the deteriorating financial health of co-operative banks. One area where most of the co-operative banks are found to be deficient is in respect of internal control system. Thus, NABARD should lay special emphasis on strengthening the internal control systems in banks, particularly the inspection of branches and affiliates and on effecting reconciliation of long pending entries and balancing of books. The banks should also be advised to introduce/update operational manuals for improving the internal checks and control systems. Exhaustive guidelines should be provided by NABARD to the co-operative banks and RRBs on proper record maintenance. As internal audit and external audit are interrelated, bank managements should be advised to strengthen their audit systems. To facilitate this, NABARD should organise the conference of Chief Co-operative Audit officers of the state governments every year. The conference should discuss arrangements for audit of co-operative credit institutions, measures needed for improving the audit systems and strategies for ensuring compliance of audit findings.

12. About Urban Co-operative Banks, it is suggested that there should be a requirement for a strong start-up capital and requisite norms for promoters’ eligibility. The existing quantitative criteria for viability standards should be replaced by qualitative norms like CRAR, tolerance limit of NPAs and operational efficiency. In order to streamline the functioning, at least two directors with suitable banking experience or relevant professional background should be present on
the Boards of UCBs and the promoters should not be defaulters to any financial institution or banks and should not have any association with chit fund/NBFC/co-operative bank or commercial bank in the capacity of Director on the Board of Directors. Again the Reserve Bank should extend to the UCBs the same freedom and discipline as is applicable to commercial banks in opening branches, if a UCB complies with the broad norms relating to capital adequacy, provisioning, net NPAs, profitability and priority sector advances. New UCBs should be allowed to extend their area of operation to the entire district of their registration and adjoining districts. Such of the credit societies whose net worth is not less than the entry point capital prescribed for new banks in that given centre, which have been posting profits during each of the last 3 years, which have earned "A" audit rating and whose methods of operation are not detrimental to the interests of the depositors, may be allowed to convert themselves into UCBs.

13. For improvement in the supervision and monitoring of the rural and agricultural credit system, we suggest that the existing structure of share linking to advances may be rationalised keeping in view the importance of augmenting the share capital of banks. A programme for strengthening the capital base of RRBs which were not covered under recapitalisation assistance may be drawn up for strengthening their capital base. The micro level aspects should be taken care of by the banks themselves by way of internal inspections or by other agencies such as auditors. In the case of weak banks, in between the biennial
on-site inspections, regular monitoring visits should be taken up, preferably by the same official who led the inspection team to the bank earlier. In case of "A" rated banks, the frequency of on-site inspections may be reduced to once in 3 years. Credit Authorisation Schemes needs to be abolished forthwith as these can never be a substitute for efficient and adequate pre-appraisal systems in the banks. Only adequately trained officers with required inspection orientation are to be posted to DoS. The officers posted for supervisory functions may be retained for a minimum period of 2 years. Over a period of time, all officers of NABARD need to be exposed to all functions including inspections. As mentioned earlier on-site inspection function should be taken off from DoS & head offices and the regional offices should be entrusted with all on-site inspections within the next 2 years. The examination work may also be technologically upgraded by providing note books and computers to regional offices. Computerisation may be taken up for building up a central data file on all supervised institutions as well as large borrowings/borrower-groups. Inspection manual may be revised incorporating new approaches to supervision on a priority basis. The BoS may be set up as an internal committee to function as an autonomous entity in all matters relating to supervision of co-operative banks and RRBs. In the event, an autonomous board for the comprehensive supervision of the whole financial system is to be set up, as is being propounded in certain quarters, the BoS of NABARD may be continued and accorded the status of an independent bench. The
functions of Board of Supervision may be broadly on the lines of those prescribed for BFS in RBI. The procedure with regard to receipt of compliance reports and the scrutiny thereof should be streamlined so as to improve the efficacy of the inspection report. The regional offices should be made responsible to ensure timely and adequate compliance. In order to take care of micro-level matter, SCBs/SCARDBs/CCBs should take steps to strengthen their internal control mechanisms by establishing internal inspection cells, preparing comprehensive guidelines and monitoring, enforcement etc.

To conclude, NABARD has acted as an apex refinance institution as well as development institution in the field of agriculture and rural development in true sense in the country. The overall performance of NABARD so far can be said as modest. What is needed urgently in future to make available more resources at the disposal of NABARD and active co-operation of various state governments and agencies disbursing credit directly. The measures suggested here would go a long way in further improving the operations of NABARD and turning the agriculture based rural economy into a robust one in the wake of new emerging global scenario.